

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 COME-00 TRSE-00 OMB-01 PA-04

PRS-01 USIA-15 CIAE-00 INR-11 NSAE-00 RSC-01 SS-20

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TO SECSTATE WASHDC 4007

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E.O. 11652: N/A

TAGS: EAIR, UK, ETRD

SUBJECT: HS-146 AIRCRAFT PROJECT MAY BE CANCELLED

REF: LONDON A-684, AUGUST 20, 1974

1. WARRINGTON, UNDERSECRETARY, DEPT OF INDUSTRY, TOLD US SEPT. 17 THAT HE WOULD NOT BE SURPRISED IF HAWKER-SIDDELEY WERE TO ANNOUNCE IN NEXT WEEK OR TWO DECISION ON PART OF COMPANY TO CANCEL MANUFACTURE OF HS-146 AIRCRAFT WHICH IS DESIGNED TO BE POWERED BY FOUR US-BUILT AVCO-LYCOMING ENGINES.

2. AS REPORTED REF AIRGRAM, HS CONTINUES TO BELIEVE THAT LEVEL OF UK INFLATION IN GENERAL AND EVEN MORE RAPIDLY RISING LABOR COSTS IN UK AIRCRAFT MANUFACTURING INDUSTRY WILL INCREASE EVENTUAL SELLING PRICE OF HS-146 TO EXTENT THAT NEW AIRCRAFT WILL BE IMPOSSIBLE TO SELL. COMPANY, THEREFORE, WANTS TO CANCEL PROJECT BEFORE SIGNIFICANT DEVELOPMENT FUNDS ARE COMMITTED TO IT. CONTINUING LACK OF ORDERS OR PROSPECTIVE ORDERS FOR HS-146, IN COMPANY'S VIEW, SUPPORTS SUCH A DECISION.

3. WARRINGTON SAID UK GOVERNMENT REJECTS HS ASSESSMENT OF PROSPECTS FOR HS-146 PROJECT. DEVELOPMENT COSTS TO DATE, HE NOTED, ADJUSTED FOR INFLATION, HAVE REMAINED STABLE;

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INFLATION IS AFFECTING OTHER PRODUCER AND CUSTOMER

COUNTRIES AS WELL AS UK AND, EVEN IF UK INFLATION/
WAGE COSTS WERE TO RISE AT RATE ABOVE THAT OF PROSPECTIVE
CUSTOMER COUNTRIES, SOME EXCHANGE ADJUSTMENT IN FUTURE COULD
BE EXPECTED WHICH COULD WELL HAVE RESULT OF KEEPING HS-146
FINAL SALE PRICE COMPETITIVE.

4. IN ANY EVENT, UK GOVERNMENT APPARENTLY CONSIDERS
HS-146 PROJECT STILL LOOKS GOOD ENOUGH AND ECONOMIC
FACTORS WHICH MIGHT DETERMINE FINAL SALES PRICE ARE
SUFFICIENTLY DIFFICULT TO PREDICT WITH CERTAINTY AT
THIS STAGE THAT SHOULD HS DECIDE TO CANCEL IT WILL RUN
INTO STIFF GOVERNMENT OPPOSITION.
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